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### **Acronyms**

DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DSCP	Defense Supply Center Philadelphia
FMR	Financial Management Regulation
GAO	Government Accountability Office
MOCAS	Mechanization of Contract Administration Services
IG	Inspector General
OMB	Office of Management and Budget



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

May 20, 2008

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on Identification and Reporting of Improper Payments by the Defense Logistics Agency (Report No. D-2008-096)

We are providing this report for your information and use. No written response to this report was required and none was received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James L. Kornides at (614) 751-1400 extension 211 or Mr. Curt W. Malthouse at (614) 751-1400 extension 230. If management requests, we will provide a formal briefing on the results. See Appendix C for the report distribution.

*Patricia A. Marsh*  
Patricia A. Marsh, CPA  
Assistant Inspector General  
Defense Financial Auditing Service



## Department of Defense Office of Inspector General

**Report No. D-2008-096**

(Project No. D2007-D000FJ-0079.000)

**May 20, 2008**

### **Identification and Reporting of Improper Payments by the Defense Logistics Agency**

#### **Executive Summary**

**Who Should Read This Report and Why?** Defense Logistics Agency financial managers responsible for identifying and reducing improper payments should read this report. It discusses areas in which Defense Logistics Agency can more accurately identify and provide useful information about improper payments in its financial statements.

**Background.** The DoD Financial Management Regulation requires reporting entity management to prepare and submit audited financial statements that include Improper Payment Information Act reporting details. It requires management to describe the Component's risk assessment, list the risk-susceptible programs, describe the statistical sampling process conducted to estimate the improper payment rate for each program, and describe the corrective action plans for reducing the estimated rate of improper payments. This audit evaluated whether the Defense Logistics Agency FY 2006 Financial Statements contained the required reporting information and evidence that the Defense Logistics Agency determined whether it incurred improper payments associated with the \$35.2 billion it spent during FY 2006 providing logistics support to the Military Departments and its other customers.

**Results.** The Defense Logistics Agency did not:

- Provide information on improper payments associated with its operations in its FY 2006 Financial Statements.
- Respond to a survey DoD used to collect information on improper payment amounts.
- Perform risk assessments related to the susceptibility of Defense Logistics Agency programs to significant improper payments.

Documentation showed that the Defense Logistics Agency could have identified and reported about \$93.3 million in improper payments associated with its programs in its FY 2006 Financial Statements. The Defense Logistics Agency needs to establish a process to identify and report improper payments related to contractor and vendor payments in each Defense Logistics Agency program. Additionally, the Defense Logistics Agency needs to identify and report the value of improper transportation payments, improper payments on fast pay contracts, and improper payments identified

during its contract closeout process. Unless it improves its identification and reporting process, the Defense Logistics Agency cannot show that it is making progress in reducing the amount of improper payments and correcting payment problems in programs that are at significant risk for improper payments. The Defense Logistics Agency also could not identify the value of debts collected from contractors (see the Finding for details).

**Management Comments.** We provided a draft of this report on March 21, 2008. No written response to this report was required and none was received. Therefore, we are publishing this report in final form.

**Management Actions.** During the audit, Defense Logistics Agency personnel agreed to provide information in the FY 2008 Financial Statements on planned actions to identify improper payments. The agreement was too late for the Defense Logistics Agency to provide the information in its FY 2007 Financial Statements. The Defense Logistics Agency identified four areas at risk for significant improper payments for FY 2007: Customer Pay, Integrated Prime Vendor, Fast Pay Contracts, and Contract Closeout. The Defense Logistics Agency agreed to develop an Improper Payment Plan that includes documenting those processes; developing a sampling plan to estimate improper payments; and reporting on each of these areas. The Defense Logistics Agency will also develop an action plan to improve its contract-closeout process. As a result of the Defense Logistics Agency planned actions, we did not make recommendations in this report.

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## Background

The Defense Logistics Agency (DLA) is a primary provider of logistics support to the Military Departments and Defense Agencies. The DLA FY 2006 Financial Statements showed that DLA spent \$35.2 billion during FY 2006 providing logistics support to its customers. DLA used the Defense Finance and Accounting Service (DFAS) to make the payments for the items DLA item managers purchased.

DoD Financial Management Regulation (FMR) 7000.14-R, volume 6B, chapter 1, April 2007, requires DLA (a DoD Component) to prepare annual internal stand-alone financial statements and have those statements audited to the extent they believe they are reliable. In addition, the FMR requires Improper Payments Information Act reporting details to be included, as applicable, as part of the annual statements. To produce those statements, the DLA needed to conform to the requirements of FMR, volume 6B, chapter 2, January 2006, which requires DLA to provide information on the amount of improper payments that are associated with its operations each year.

The DoD FMR, volume 6B, chapter 3, paragraph 030302, “Improper Payment Information Act Reporting Details,” requires management to perform the following steps to identify and report improper payments:

- describe the Component’s risk assessment performed subsequent to compiling its full program inventory,
- list the risk-susceptible programs identified through the risk assessment,
- describe the statistical sampling process conducted to estimate the improper payment rate for each program, and
- describe the corrective action plans for reducing the estimate rate of improper payments.

## Objectives

This audit evaluated whether the DLA FY 2006 Financial Statements contained evidence that DLA determined whether it incurred improper payments associated with the \$35.2 billion it spent during FY 2006 providing logistics support to the Military Departments and its other customers. We also assessed compliance with applicable laws and regulations. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objectives.

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## **Review of Internal Controls**

We identified internal control weakness for DLA as defined by DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," January 4, 2006. DLA did not have effective internal controls over the identification and reporting of DLA improper payments. DLA identified four areas at risk for significant improper payments: Customer Pay, Integrated Prime Vendor, Fast Pay Contracts, and Contract Closeout. DLA agreed to develop an Improper Payment Plan that includes documenting those processes; developing a sampling plan to estimate improper payments; and report on each of these areas. DLA will also develop an action plan to improve its contract-closeout process. If the agreed upon actions are completed, DLA will correct the internal control weaknesses related to the identification and reporting of improper payments.

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## **Defense Logistics Agency Improper Payments Identification and Reporting**

DLA did not provide information on its improper payments in its FY 2006 financial statements, did not respond to a survey DoD used to collect information about improper payments, and did not perform risk assessments related to the susceptibility of DLA programs to significant improper payments. We estimated that DLA could have identified and reported about \$93.3 million in improper payments associated with its FY 2005 and FY 2006 operations in its FY 2006 financial statements. These conditions existed because DLA did not establish a process to identify and report on improper payments related to contractor and vendor payments and analyze payments by DLA program. Additionally, it did not have a process in place to identify or report on the value of improper transportation payments, improper payments on fast pay contracts, and improper payments identified during the contract closeout process. Unless it improves its identification and reporting process, DLA cannot show that it is making progress in reducing the amount of DLA improper payments and correcting payment problems in programs that are at significant risk for improper payments. DLA also could not identify the value of debts collected from contractors. During the audit, DLA stated it would include information in its annual statement of assurance on improper payments that will explain the status of planned actions to identify improper payments. Because of DLA's planned actions, this report does not make recommendations.

### **Information on Improper Payments in the DLA Financial Statements**

DLA personnel did not prepare information on the improper payments associated with DLA operations and report on them in the FY 2006 Financial Statements. They stated that DFAS was the paying office on most of the DLA contractor and vendor payments and DFAS would have better information than DLA about the amount of improper payments associated with DLA operations.

The DoD FMR 7000.14-R, volume 6B, chapter 2, "General Instructions for the Financial Statements," section 020101, January 2006, identifies the officials that are primarily responsible for preparation of each section of the financial statement. Officials responsible for the improper payments section of financial statements include officials from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DFAS, the U.S. Army Corps of Engineers

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Accounting Activity, and the Reporting Entity Management. The DoD FMR includes the DLA as one of the reporting entities and Other Defense Organization sub-entities for which the management is responsible for collecting financial information.

DLA needs to identify and report information on its improper payments in its financial statements. It needs to establish a process to collect the information so that it could focus on evaluating each improper payment to determine its cause and remedy. Initial reporting can be used as a baseline from which DLA could measure progress in managing and reducing the improper payments, including searching for causes and correcting processes that may not be directly attributable or controlled by DLA.

## **Responding to the Improper Payment Survey**

In FYs 2005 and 2006, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer mailed a survey to the Directors of Defense Agencies in the Department that required them to submit information on the amount of improper payments associated with each of the agencies' programs. DLA personnel did not respond to the survey and did not believe it was required or necessary since they did not operate any payment systems. DLA personnel indicated that DFAS Columbus provided survey data for DLA's payment systems. The survey refers to, and included as an attachment, Office of Management and Budget (OMB) guidance<sup>1</sup> for identifying and reporting improper payments. The OMB guidance requires each agency head to annually review all programs and activities that it administers and identify all such programs and activities that may be susceptible to significant improper payments.

During the audit, DLA management informed us that in the future they planned to comply with the OMB guidance and the FMR. Specifically, on October 17, 2007, DLA provided information that showed DLA began developing an Improper Payments Plan and the actions needed to create one. This plan will include a process for collecting information for submission to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. It was too late for DLA to include this information in their annual statement of assurance or correct the FY 2007 Financial Statement information.

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<sup>1</sup> OMB Memorandum M-06-23, subject "Issuance of Appendix C to OMB Circular A-123, August 10, 2006," consolidates guidance and reporting requirements for the Improper Payments Information Act of 2002.

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## **Performing a Risk Assessment**

Because it had not compiled any information on the amount of improper payments, DLA did not perform risk assessments related to the susceptibility of DLA programs to significant improper payments as required by the OMB and DoD guidance. DLA personnel stated that they believed that the OMB requirement to perform a risk assessment applied only to entities that made payments. During the audit, DLA personnel indicated that in the future DLA would comply with the OMB guidance for performing a risk assessment.

To comply with the DoD FMR, DLA needs to describe in its financial statements:

- the risk assessment it performed subsequent to compiling its full program inventory,
- the risk-susceptible programs identified through the risk assessment,
- the statistical sampling process conducted to estimate the improper payment rate for each program, and
- the corrective action plans for reducing the estimate rate of improper payments.

## **DFAS Reporting of DLA Improper Payments**

DLA personnel indicated they relied on DFAS Columbus to identify and report on improper payments. However, DFAS Columbus was unable to separate DLA information from other DoD Components because of the nature of its sampling methodology and the volume of payments DFAS Columbus made for DoD. DFAS Columbus compiled improper payment information for the DoD-Wide Financial Statement Performance and Accountability Report by three broad and general categories: travel pay, civilian pay, and commercial pay, but did not separate them by entity.

The DFAS Kansas City Office of Statistical Review provided statistical estimates of DoD-wide improper payments on travel pay and civilian pay. In addition, although the Statistical Review office's work included DLA portions of the payments, it did not capture DLA improper payments separately or completely.

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## Vendor and Contract Improper Payments

Although DLA relied on DFAS Columbus to satisfy DLA reporting at the Department level, we concluded that the information about DLA that DFAS Columbus gathered was incomplete as it related to payments made in vendor pay systems and in the Mechanization of Contract Administration Services (MOCAS) system.

### Reported DLA Improper Payments

We identified the following improper payments that DLA could have reported in its annual financial reports for FYs 2005 and 2006.

<b>Table 1. DLA Related Improper Payments (\$ in millions)</b>	
<b><u>System/Program</u></b>	<b><u>Improper Payment Amount</u></b>
Vendor Payments	\$58.4
Contract Payments	13.2
Fast Pay Payments	21.0
<u>Contract Closeout</u>	<u>.7</u>
<b>Total Unreported</b>	<b>\$93.3</b>

As shown in Table 1, DLA did not report at least \$93.3 million in improper payments related to four payment systems and programs.

**Vendor Pay Systems.** We statistically sampled \$1.6 billion in collections received from DLA vendors during 2005 and 2006, and we projected that an estimated \$58.4 million in DLA vendor collections may have been caused by improper payments in 2005 and 2006. The type of information we examined was available but not used by DLA to determine improper payment amounts because DLA did not establish a process in conjunction with DFAS Columbus to analyze collections that DFAS Columbus received from DLA vendors and, therefore, did not identify the possible improper payments associated with the refunds.

DFAS Columbus maintained a history of collections from vendors in a database called Vendor Check Collection Database. DFAS Columbus provided us an extract that included \$1.8 billion in collections received from DLA vendors during 2005 and 2006. We selected a stratified random sample of 300 items from this extract to identify refunds related to improper payments. DFAS Columbus provided copies of the collection vouchers and supporting documents for 298 of

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the sampled collections. DFAS Columbus could not provide documentation on two of the other items because DFAS Columbus sent the information to records holding before the audit and it was not readily available.

We reviewed the 298 sample items and the supporting documents to determine the collection type and whether the collection occurred because of an improper payment. Of the 298 sampled collections, we determined that 22 were refunds and 276 were reimbursements. A refund is defined as a payment made in error and collected by a disbursing officer. Reimbursements are amounts earned and collected for property sold or services furnished to the public or to another Government agency. Because reimbursements would not result from improper payments, we only examined the refunds. Of the 22 refunds, 7 were Federal excise taxes and 15 were refunds that occurred because of improper payments. Of those 15 refunds, 11 were unsolicited refunds of overpayments identified by DLA vendors and 4 were the result of demand letters.

Of the 300 collections/refunds in our sample, we found that 15 refunds resulted from improper payments. We projected this to the sample population of DLA collections of \$1.6 billion and estimated that population could contain similar improper payments with an estimated value of \$58.4 million.

**MOCAS.** DFAS Columbus used MOCAS to make a significant number of the contractor payments for DLA. We used a judgmental sample to identify \$13.2 million in DLA improper payments related to large DoD contractor payments processed in MOCAS during FYs 2005 and 2006 that were not included in DLA reporting.

We reviewed 111 of the 246 checks refunded from DLA contractors that DFAS paid through MOCAS during FYs 2005 and 2006. The aggregate value of the contracts was \$17.1 million. We determined that 85 refunds valued at \$13.2 million should be reported as improper payments based on the documentation provided by DFAS.

<b>Table 2. DLA MOCAS Contract Refunds</b>		
<b><u>Type of Payment</u></b>	<b><u>Quantity</u></b>	<b><u>Refund Value</u></b>
Improper	85	\$13,165,986
Not Improper	26	3,944,996
<b>Total</b>	<b>111</b>	<b>\$17,110,982</b>

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The following explain some examples of the improper payments associated with refunds from DLA contractors:

- DFAS Columbus received a refund of \$2.5 million as a result of an overpayment for DoD fuel on contract SPO600-02-D-0024 with Kropp Holdings, Inc. Documentation showed DFAS charged the wrong contract line item number for some fuel invoices. DFAS requested a refund of the duplicate payments on two contract line item numbers.
- DFAS Columbus received a refund of \$1.9 million as a result of an overpayment on contract SPO400-12-D-9405 with Pratt and Whitney Co. The contractor voluntarily submitted the refund.
- DFAS Columbus received a refund of \$1.5 million for DoD fuel as a result of an overpayment on contract SPO600-02-D0146 with Kropp Holdings, Inc. DFAS Columbus had issued a demand letter for the overpayment because they had paid the invoice number instead of the invoiced quantity in gallons.

**Action Plan for Refunds from Vendors/Contractors.** DLA needed to focus attention on the types of collections that DFAS Columbus was receiving from its vendors and contractors to identify all of its improper payments. During the audit, DLA officials indicated DLA would establish a process to identify and report any improper payments. They stated the process would include a method to compile the amount of collections on DLA contracts, identify the cause, and report the collections as improper payments.

## Transportation Payments

DLA did not report improper transportation payments including those that might be occurring in the PowerTrack system. DLA information showed that some of the transportation payments processed through the PowerTrack system were improper and should have been included in its reporting.

We requested the amount of the PowerTrack system refunds processed by the Defense Distribution Depot Susquehanna during a 1-year period starting February 3, 2006. Personnel at this depot queried the PowerTrack system and identified \$252,000 in refunds. We examined 10 refunds valued at \$32,521 and determined that all 10 were overpayments. Notes contained in the PowerTrack system supported our conclusion. For example, on March 23, 2007, this depot received an unsolicited refund from Maersk Sealand for \$3,639. Documentation in the PowerTrack system indicated that the DoD paid the contractor twice for the same shipment.



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The Office of Internal Review at the Defense Distribution Center initiated an audit of the PowerTrack system as a result of the existence of significant unresolved and unexplained carrying balances held by distribution depots at both Susquehanna, Pennsylvania, and San Joaquin, California. The auditors found that DLA did not correct problems with the carrying balances. The auditors noted that procedures used by U.S. Bank (the contractor for the PowerTrack system) made a full reconciliation between the bank and the Government challenging and inhibiting DLA efforts to identify specific short or excess payments.

## **Fast Pay Procedures**

We reviewed DLA fast pay procedures and examined a DLA Subsistence prime vendor contract, which accounted for \$1.4 billion of the \$4 billion<sup>2</sup> in total Subsistence disbursements in FY 2006, to determine whether DLA performed a review and identified improper payments. Fast pay reviews, when performed as required by the FMR, can identify and recover overcharges.

We visited the Defense Supply Center Philadelphia (DSCP) to assess fast pay reviews that DSCP made in FY 2006. We concluded that DSCP had not fully implemented:

- DoD FMR, volume 5, chapter 33, section 3306, “Departmental Accountable Officials, Certifying Officers and Review Officials,” April 2005, which requires certifying officers to examine payment vouchers prior to certification, and allows DoD components to use a statistical sampling plan for vouchers in amounts not to exceed \$2,500 and,
- Government Accountability Office (GAO), “GAO Policy and Procedures Manual for Guidance of Federal Agencies,” title 7, chapter 7, May 1993, which requires voucher-examining plans that combine fast pay procedures and statistical sampling to sample all invoices not subject to complete audit coverage. Exceptions, according to GAO, may be authorized, but require justification and approval on a case-by-case basis.

Fast pay reviews are required to identify potential over charges and to permit their recovery by making adjustments to future billings. At the time of the audit, no statistically valid fast payment review process was in place.

Fast pay reviews, when completed as required by the FMR and GAO, can identify improper payments. For example, DLA information showed that in FY 2006 the

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<sup>2</sup> DSCP Subsistence personnel provided the total Subsistence disbursements for FY 2006.

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DSCP Subsistence prime vendor, Public Warehousing Corporation, owed \$14,697 on three invoices that were improperly paid. However, the total amount improperly paid was \$27,863: \$21,280 overpaid and \$6,583 underpaid. DSCP sent an e-mail requesting payment for \$14,697.

On another fast payment, a FY 2006 DoD review found that DSCP overpaid C&D Distributors \$21 million for fraudulently submitted shipping charges. DLA had not performed a fast payment review of the contract. As a result of the investigation, DLA and DFAS began reviewing records for additional errors.

DLA officials agreed DLA needs to perform fast payment reviews and that the procedures at DSCP associated with reporting overpayments on fast pay contracts were inadequate. In addition, DLA officials stated that procedures were similar at other locations and were not adequate; they agreed to use a statistically valid sampling plan and evaluate “end state” procedures of fast pay for the reporting of DLA improper payments.

DLA has tentatively identified fast pay as one of four improper payment risk areas.

## **Contract Closeout**

To examine whether DLA overpaid contractors and discovered the overpayments at contract closeout, we examined closeout procedures at one activity, DSCP. DSCP did not reconcile and close contracts as required by Federal Acquisition Regulation 4.804, “Government Contract Files,” September 2001. DSCP personnel identified 30,587 open contracts. DLA began taking aggressive action to reduce its backlog during the audit. We reviewed a judgmental sample of 67 of the 226 contracts closed during the audit, valued at approximately \$93 million. We reviewed DLA documentation for improper payments identified during the close out process. For the 67 contracts reviewed, DLA documents showed DLA identified \$165,377 in overpayments.

We also reviewed returned checks on closed contracts. We compared the 226 closed contracts to FYs 2005 and 2006 MOCAS returned-checks data and FYs 2004, 2005, and 2006 vendor-check collection data. We determined that DFAS recorded 40 collections totaling \$629,583 on 12 of the DSCP contracts that were physically complete. Of the 40 collections, DFAS Columbus provided supporting documentation for seven totaling \$503,309. The documentation indicated the seven resulted from an improper payment. However, seven were not part of DLA or DFAS Columbus annual reporting.

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During the audit, DLA personnel stated they would investigate the contract closeout process, identify policy and procedure issues, and take corrective action as required. DLA personnel also stated they would integrate the contract closeout process into the DLA Improper Payment Plan.

## **Management Actions Taken**

During the audit, DLA personnel stated DLA would include information in its FY 2008 Financial Statements on improper payments that will explain the status of planned actions to identify improper payments. DLA identified four areas at risk for significant improper payments: Customer Pay, Integrated Prime Vendor, Fast Pay Contracts, and Contract Closeout. DLA agreed to develop an Improper Payment Plan that includes documenting the integrated prime vendor, customer pay, demand letter and fast pay processes, developing a sampling plan to estimate improper payments, and reporting on each of these areas. DLA will also develop an action plan to improve its contract-closeout process. As a result, this report does not make recommendations and does not require management comments.

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## Appendix A. Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We assessed whether DLA complied with the requirements of the Improper Payments Information Act of 2002 as established under section 3321, title 10, United States Code (31 U.S.C. 3321). The Improper Payments Information Act of 2002 and 31 U.S.C. 3321 are further defined by OMB Circular A-123, Appendix C, “Requirements for Effective Measurement and Remediation of Improper Payments,” August 10, 2006; OMB Circular A-136, “Financial Reporting Requirements,” July 24, 2006; and OMB Circular A-136, “Financial Reporting Requirements,” June 29, 2007. In addition, we reviewed Federal regulations, Government Accountability Office (GAO), DoD, DLA, and DFAS policies and procedures for implementing fast pay and contract closeout procedures.

We reviewed an extract of collections received from DLA vendors during 2005 and 2006. We reviewed the collections using both statistical and judgmental methods to determine whether the DFAS annual Improper Payments Information Act survey properly identified improper payments. We reviewed DFAS Columbus processes to analyze refunds from vendors to identify improper payments. We reviewed the DFAS Columbus reporting database to determine whether payments were included and reported as improper payments.

We requested a list of open and expired DSCP contracts as of November 2006 and March 2007; however, one of the four supply chains located at DSCP could not query their information technology system, the Enterprise Business System (part of DLA Business System Modernization effort), but provided a list of DSCP Subsistence contracts after manually compiling a list. We reviewed a sample of 226-closed DSCP Subsistence contracts for compliance with the Federal Acquisition Regulation’s contract closeout timelines and whether the contract files included evidence of potential improper payments.

For one DSCP Subsistence vendor, we reviewed policies and procedures implemented for conducting reviews of fast pay contracts. We reviewed DSCP documentation of their reviews from August 2004 to December 2006 to determine whether the data was statistically valid in accordance with regulations, and whether DSCP reported amounts found in error.

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We also requested the amount of refunds processed by Defense Distribution Depot Susquehanna during a 1-year period from February 3, 2006, to February 2, 2007. Personnel at the depot queried the PowerTrack system for refunds and identified \$252,000 of refunds.

We performed this audit from December 2006 through December 2007 in accordance with generally accepted government auditing standards. Further details on organizations visited are available upon request.

**Use of Computer-Processed Data.** We did not use computer-processed standard reports. Instead, we relied on queries of computer systems that have been shown to be unreliable in other audits.

**Use of Technical Assistance.** The DoD Office of Inspector General Quantitative Methods Directorate assisted with the audit. See Appendix B for detailed information about the work performed by the Quantitative Methods Directorate.

**Government Accountability Office High-Risk Area.** The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Financial Management and DoD Contract Management high-risk areas.

## Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), and the Department of Defense Inspector General (DoD IG) issued three reports on the Identification and Reporting of Improper Payments. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

## GAO

GAO Report No. GAO-07-092, “Agencies’ Fiscal Year 2005 Reporting under the Improper Payments Information Act Remains Incomplete,” November 2006

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## **DoDIG**

DoD IG Report No. D-2006-094, "Improper Payments for Defense Fuels,"  
June 29, 2006

DoD IG Report No. D-2005-100, "Identification and Reporting of DoD Erroneous  
Payments," August 17, 2005

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## Appendix B. Sampling Methodology

### Universe of DLA Vendor Collections

The initial population data for DLA vendor collections in 2005 and 2006 contained 28,237 records totaling \$1.835 billion. We removed 25,991 payments (collections) totaling \$217.8 million that were less than \$100,000, leaving 2,246 payments totaling \$1.618 billion from which we drew our sample. We selected 300 sample items using a stratified random sample design based on the dollar amount of each payment. We stratified the payments into a mutually exclusive strata based on dollar amount. We randomly selected all payments in the sample without replacement from the population using JMP 7.0 software. See Table B-1 for our sample size and universe dollars.

<b>Table B-1. Universe and Sample Size</b> <b>(\$ in million)</b>				
<u>Stratum</u>	<u>Sample Size</u>	<u>Sample Dollars</u>	<u>Population Size</u>	<u>Population Dollars</u>
>\$5 million	46	\$498.03	46	\$498.03
>\$1 million to \$5 million	150	272.26	341	625.80
>\$500k to \$1 million	30	20.05	221	155.36
\$100k to \$500k	<u>74</u>	<u>15.44</u>	<u>1,638</u>	<u>338.96</u>
Totals	300	\$805.78	2,246	\$1618.15

### Projection of Sample

Based on the audit results, our statisticians calculated the dollar errors shown in Table B-2 at a 95-percent confidence level.

<b>Table B-2. Projected Dollar Errors</b> <b>(\$ in million)</b> <b>95-Percent Confidence Level</b>			
<u>Type Error</u>	<u>Lower Bound</u>	<u>Point Estimate</u>	<u>Upper Bound</u>
Solicited Refund	\$ 6.13	\$16.29	\$26.44
Unsolicited Refund	\$19.38	\$42.19	\$65.00
All Errors	\$33.73	\$58.48	\$83.22

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director, Program Analysis and Evaluation

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Combatant Commands**

Inspector General, U.S. Joint Forces Command

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Logistics Agency



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## **Non-Defense Federal Organization**

Office of Management and Budget

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations

Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Homeland Security and Governmental Affairs

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Oversight and Government Reform

House Subcommittee on Government Management, Organization, and Procurement,  
Committee on Oversight and Government Reform

House Subcommittee on National Security and Foreign Affairs, Committee on Oversight  
and Government Reform



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